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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Tuesday, 14 November 1989



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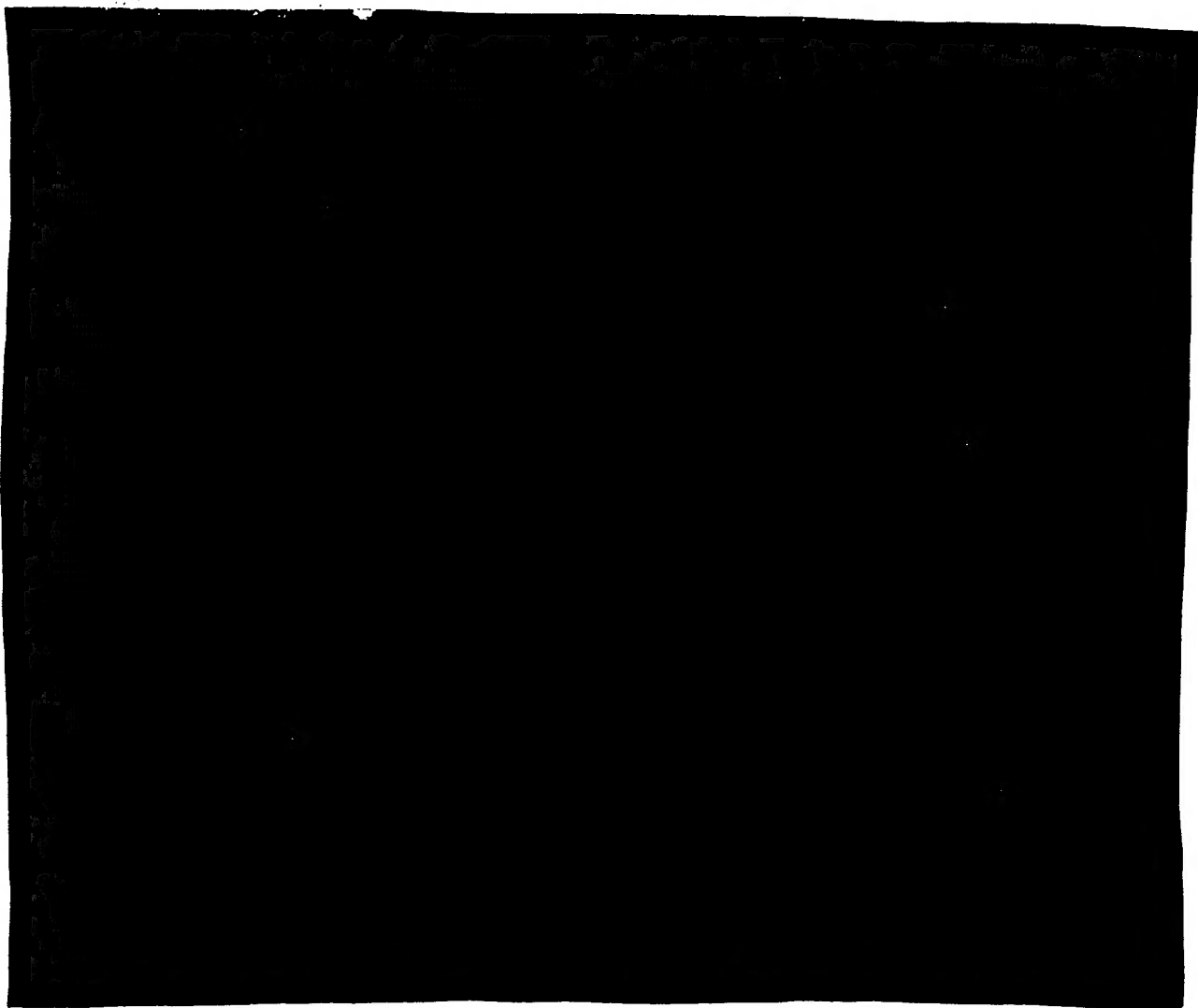
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EAST GERMANY: Pressure for Elections Building

Conflict Over Elections

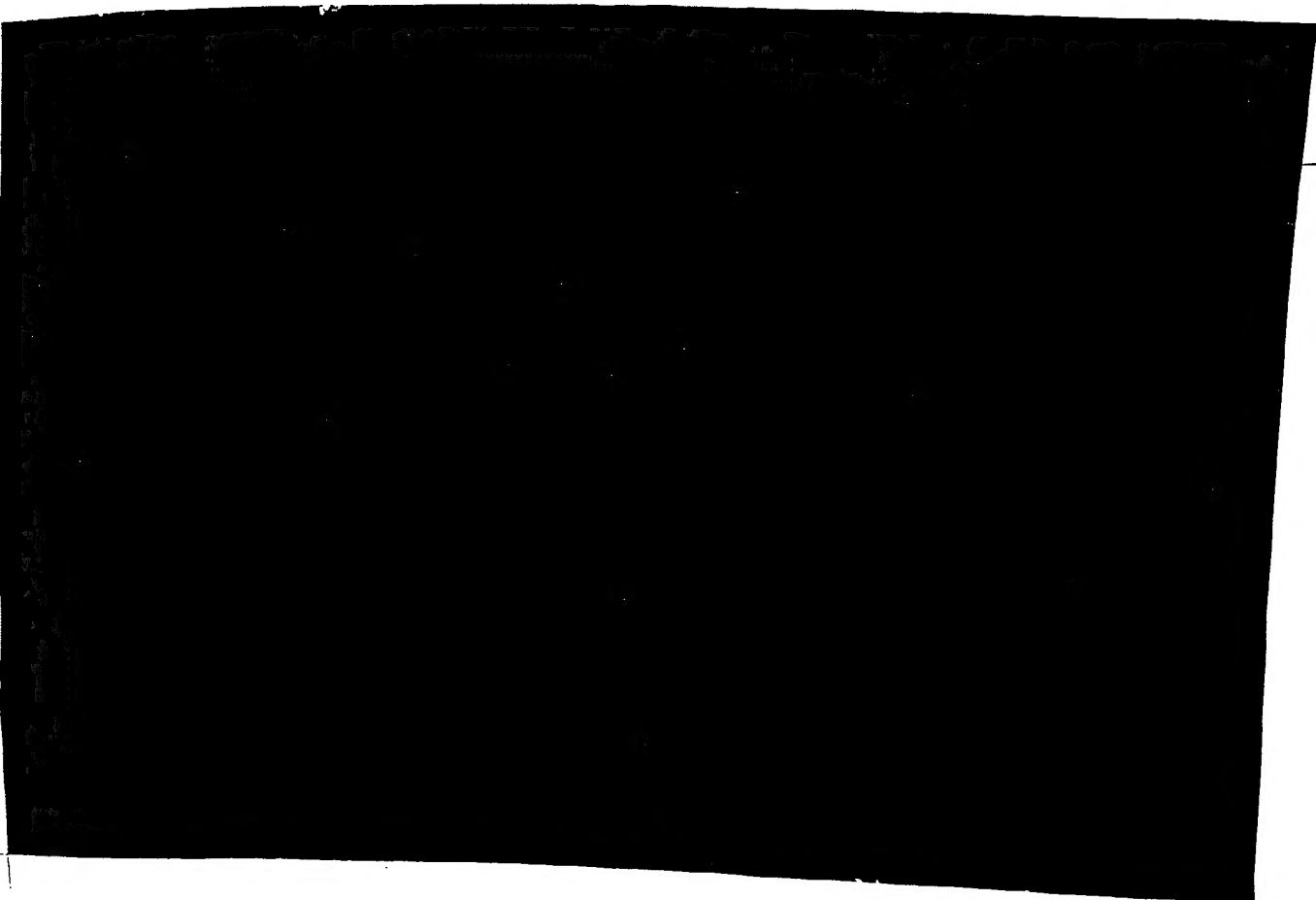
Both the regime and the leading opposition group New Forum are opposing growing public pressure for early free elections. Last night up to 300,000 protesters marched in support of that demand in Leipzig. New Premier Modrow, confirmed yesterday, warned West German Chancellor Kohl last weekend against pushing for early elections. New Forum cofounders Jens Reich and Baerbel Bohley also came out strongly against early elections, saying the opposition needs at least a year to organize. Reich, who said his group has 200,000 mostly new members and is growing, argued against any hasty move to leave the "Eastern Bloc" and denounced talk of German reunification as harmful to Soviet President Gorbachev.

The Communists and New Forum are struggling to stay in command of events; the Leipzig demonstration's focus on free elections suggests they will not be able to do so. Party leaders hope, probably vainly, that by delaying elections until 1991, they may improve their dismal chances. New Forum has a small, weak organizational base and uncertain access to the mass media, as compared with the large but eroding Communist party. The regime probably will feel obliged to move up the date for elections, and New Forum will have to scramble to put together an electoral slate and program.

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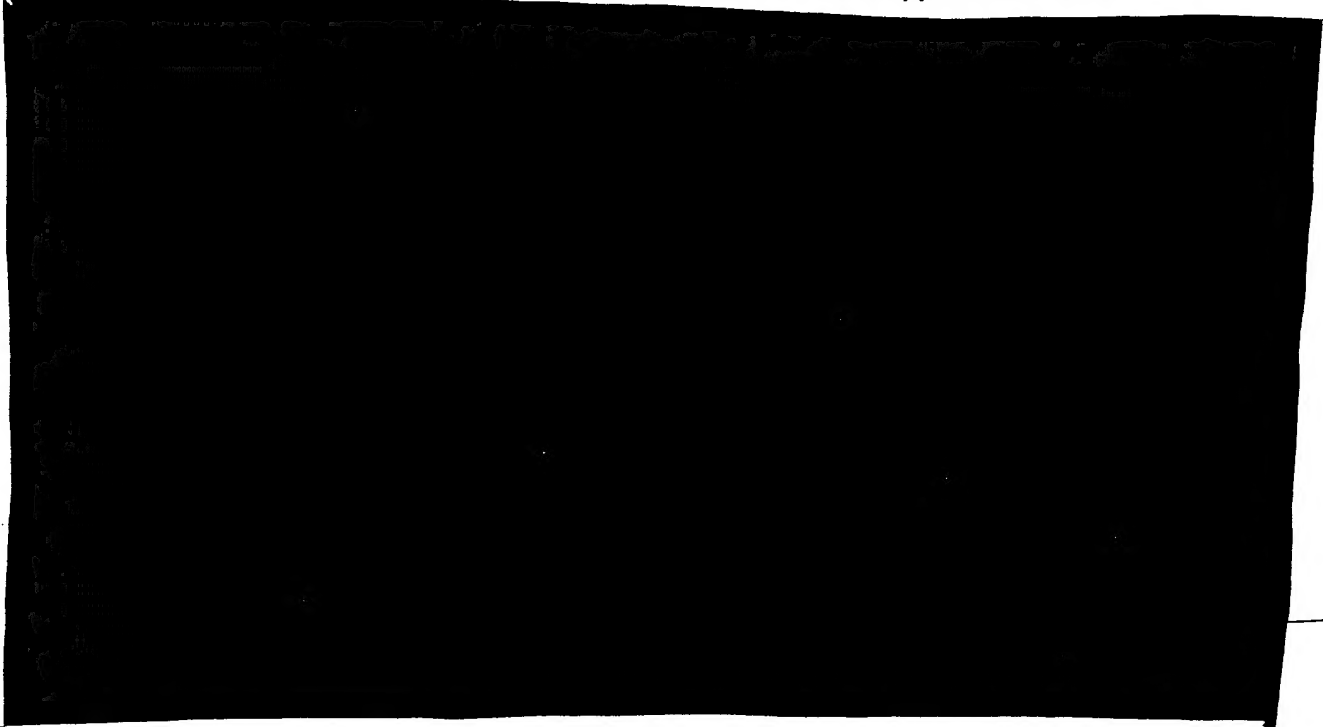
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**Emigration
Slackening
Temporarily**

The exodus has tapered off since East Berlin opened its borders. West German authorities told reporters early yesterday that only 20,000 of the 3 million East Germans who crossed into West Berlin and West Germany since Thursday night have asked to settle there. [REDACTED]

[REDACTED] The regime's gamble on liberalized travel appears to have worked. Most East Germans appear content for now to sample Western consumerism and return home. The experience may make East Germans less tolerant of shortages and increase public pressure for market-oriented reforms and economic support from Bonn.



**Token
Non-Communist
Speaker**

The People's Chamber, East Germany's legislature, yesterday elected Guenther Maleuda, the cautious head of the Democratic Peasants' Party, as its new presiding officer. He defeated Manfred Gerlach, the relatively outspoken leader of another satellite party, the Liberal Democrats. The legislature reconvenes Friday for another two-day session. [REDACTED]

[REDACTED] Maleuda has not been among the minority party leaders who have called for reforms, and the Krenz regime probably engineered his election to slow the pace of change. Nevertheless, the voting was televised nationally, a beginning for open debate that will add to the pressures on deputies to represent their constituents. [REDACTED]

USSR: Proposed Forms of Property Ownership

<i>Public Ownership</i>	All land and natural resources and most capital equipment.
<i>State Ownership</i>	
All-union	Defense industries, heavy industry, extractive industries, national communications and transportation systems.
Joint all-union and republic	Land, natural resources, and waterways. Republics "possess, utilize and dispose" of these properties; Moscow determines the basis for their use.
Republic	Food and consumer goods industries, property related to republic services and infrastructure, including health, education, transport, and housing.
Municipal	Property related to local services and infrastructure, including health, education, urban transit, and housing.
<i>Group Ownership</i>	
Collective farms	Originally a cooperative form of ownership, now differ little from state farms but are not subject to state orders.
Joint stock companies	Employees own shares, nonemployees may be able to own shares. Shares cannot yet be sold or traded.
Leaseholdings	Enterprises or parts of an enterprise can be leased by a group of individuals for 50 years. Leased farmland can be inherited.
Cooperatives	Members can buy and sell capital equipment. There are restrictions on hiring and other activities.
<i>Individual Ownership</i>	
Private property	Equipment individuals need to set up own small businesses, such as consumer services or handicrafts. Private farmers can buy and sell machinery and draft animals.
Personal property	Personal possessions, including consumer durables, houses, personal effects not used to create income except for musical instruments.

USSR:

Debate on Property Rights Likely To Be Heated

Legislation relaxing restraints on private ownership of some types of property is being debated at the joint government-academic conference on economic reform that opened yesterday; the Supreme Soviet leadership probably hopes a compromise will emerge from the debate at that conference. [REDACTED] b3

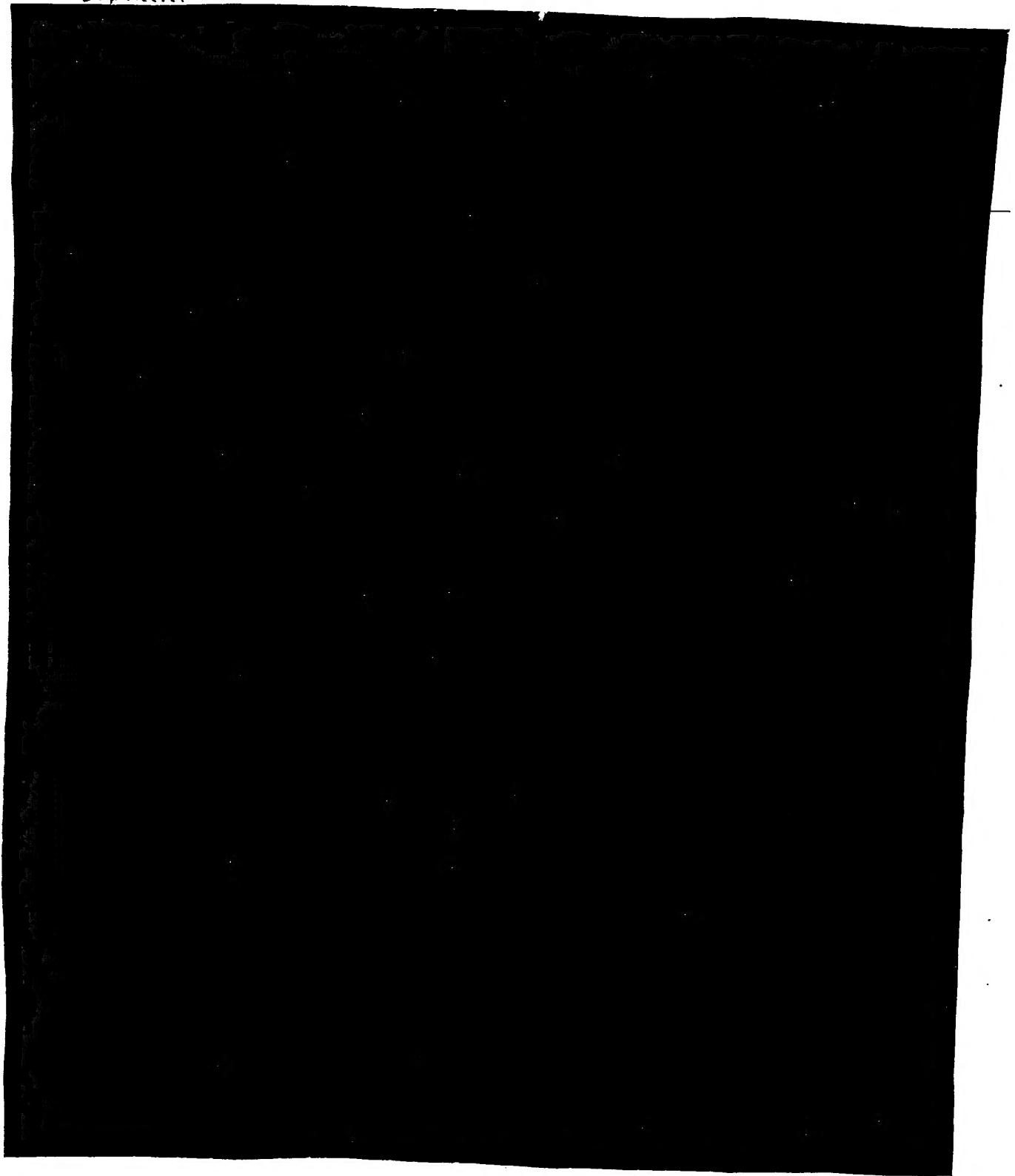
The Supreme Soviet last month began debating a legislative package on property rights, land use, leasing, enterprise rights, and a new tax system that will be central to getting economic reform back on track. The centerpiece of the government proposals, a draft law on property, grants individuals the right to own equipment for small shops and farms but prohibits them from hiring others and upholds the state's 70-year-old role as sole landowner. The Interregional Group of Deputies submitted a more radical proposal that would permit private farmers to buy and sell state land and private businesses to form and disband and to hire and fire labor. [REDACTED] b3

The property law will also determine the degree of autonomy republics can exercise over resources. The government-proposed property law loosens Moscow's control over land, natural resources, and waterways by giving the republics and central government joint ownership. Although the draft law falls short of meeting Baltic demands that republics exercise exclusive control over all land and resources, it gives them sole ownership of enterprises and equipment involved in producing food and consumer goods. It also would increase the share of total industrial production under republic jurisdiction from the current level of 5 percent to about 35 percent.

[REDACTED] b3

The debate in the Supreme Soviet on property has been long and contentious. The leadership would gladly accept a compromise at the conference to get the legislation moving. Guidance on how far property rights must be expanded to support reform and to revitalize the economy will be central to shaping an economic game plan. Finding a compromise, however, will be hard given the divergence in views. Effective implementation of even the government's limited legislation could lay the groundwork for a significant reduction in the central government's role in determining property use. [REDACTED] b3

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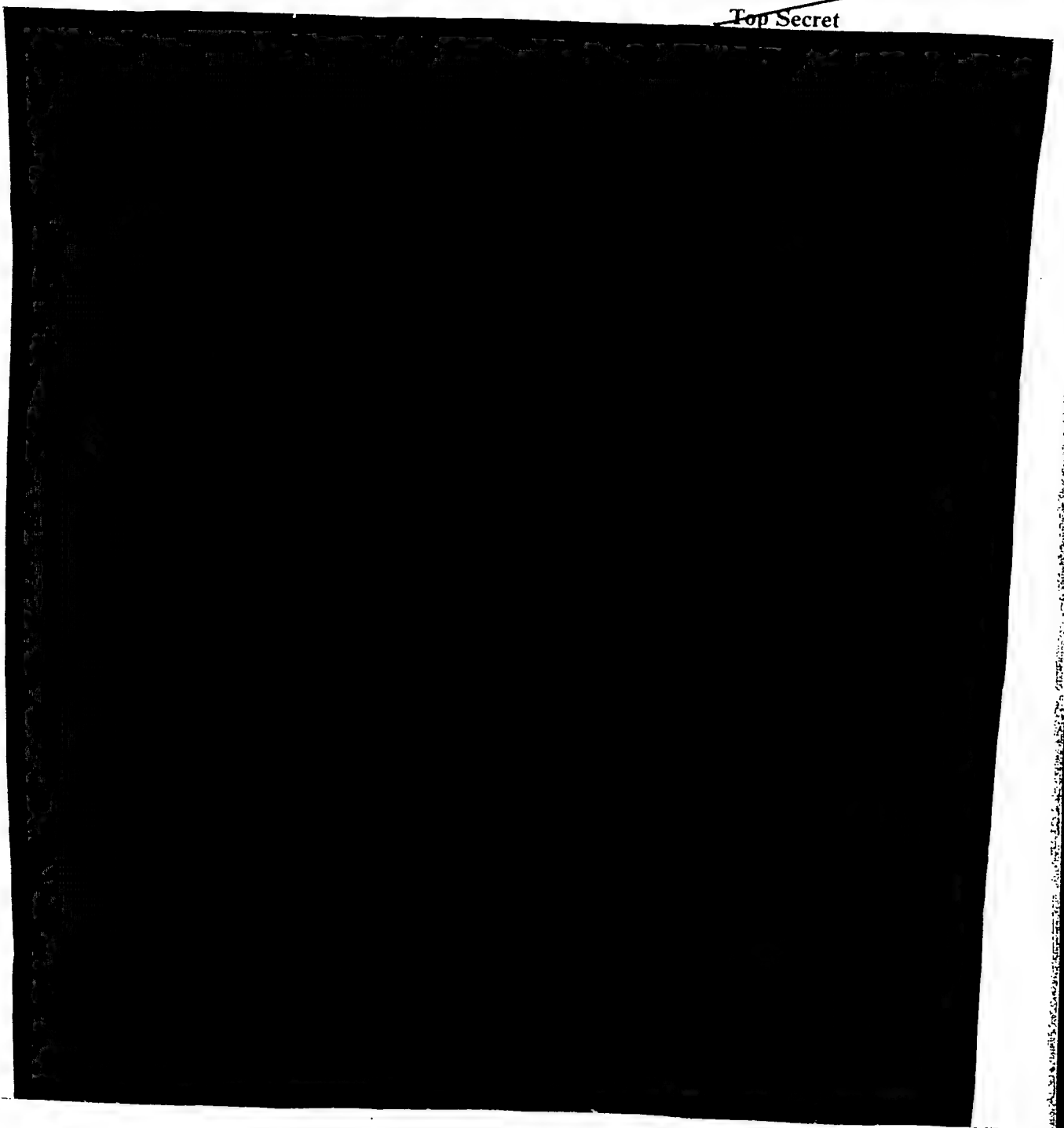


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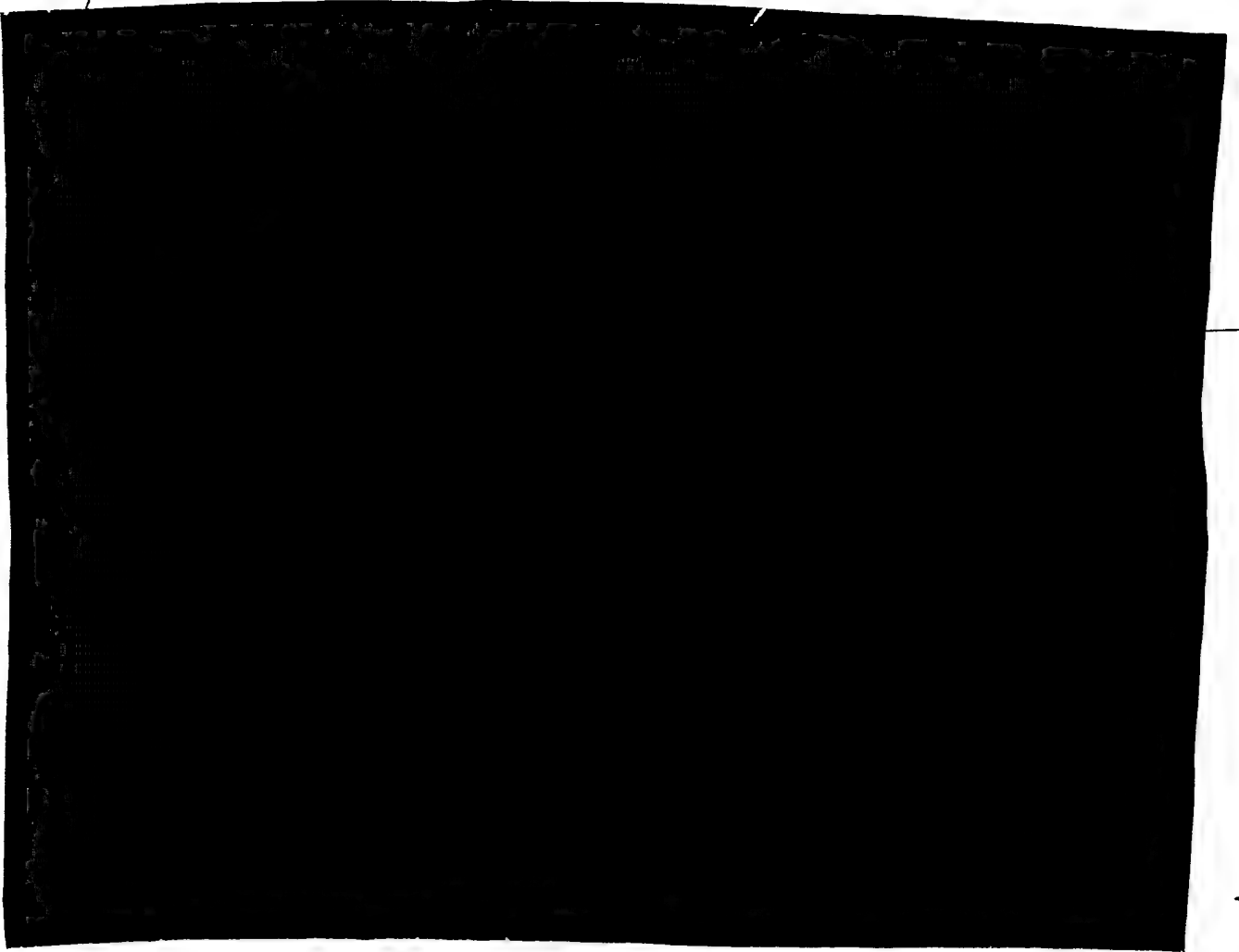
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EL SALVADOR: Fighting Continues

Sporadic fighting continues throughout the country, although the Cristiani government seems to have improved security in San Salvador and has thus far countered the guerrilla offensive. b3

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fighting continued yesterday, primarily in the capital's northern and eastern suburbs where guerrillas have occupied some buildings and houses. The insurgents yesterday attacked the headquarters of the transit authority—near the US Embassy—having shelled Ilopango airfield late Sunday night.

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most of the metropolitan area is under government control; there apparently has been no attack on military targets in the capital since Sunday night. The Army remains on alert and has completed a sweep operation at the National University, an apparent staging ground for the latest attacks. b3

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Fighting may continue throughout the week, government forces, however, appear to have succeeded thus far in thwarting an all-out guerrilla offensive. The insurgents may have miscalculated that their offensive would spark a general insurrection, though they probably can remain holed up in the poorer neighborhoods of San Salvador where they have supporters. If FMLN leaders call off the offensive soon, they are likely to claim a success, citing the government's heavy casualties and repressive reaction. b3

Cristiani is likely to be criticized for his decision to declare a state of siege and for the attack against the National University, but those actions will no doubt impede the FMLN's ability to conduct urban operations. b3

PLO-ISRAEL:

Arafat Seeking Greater Control of Intifadah

PLO Chairman Arafat is trying to increase his personal control over the Palestinian uprising to prevent more violence and anarchy in the occupied territories.

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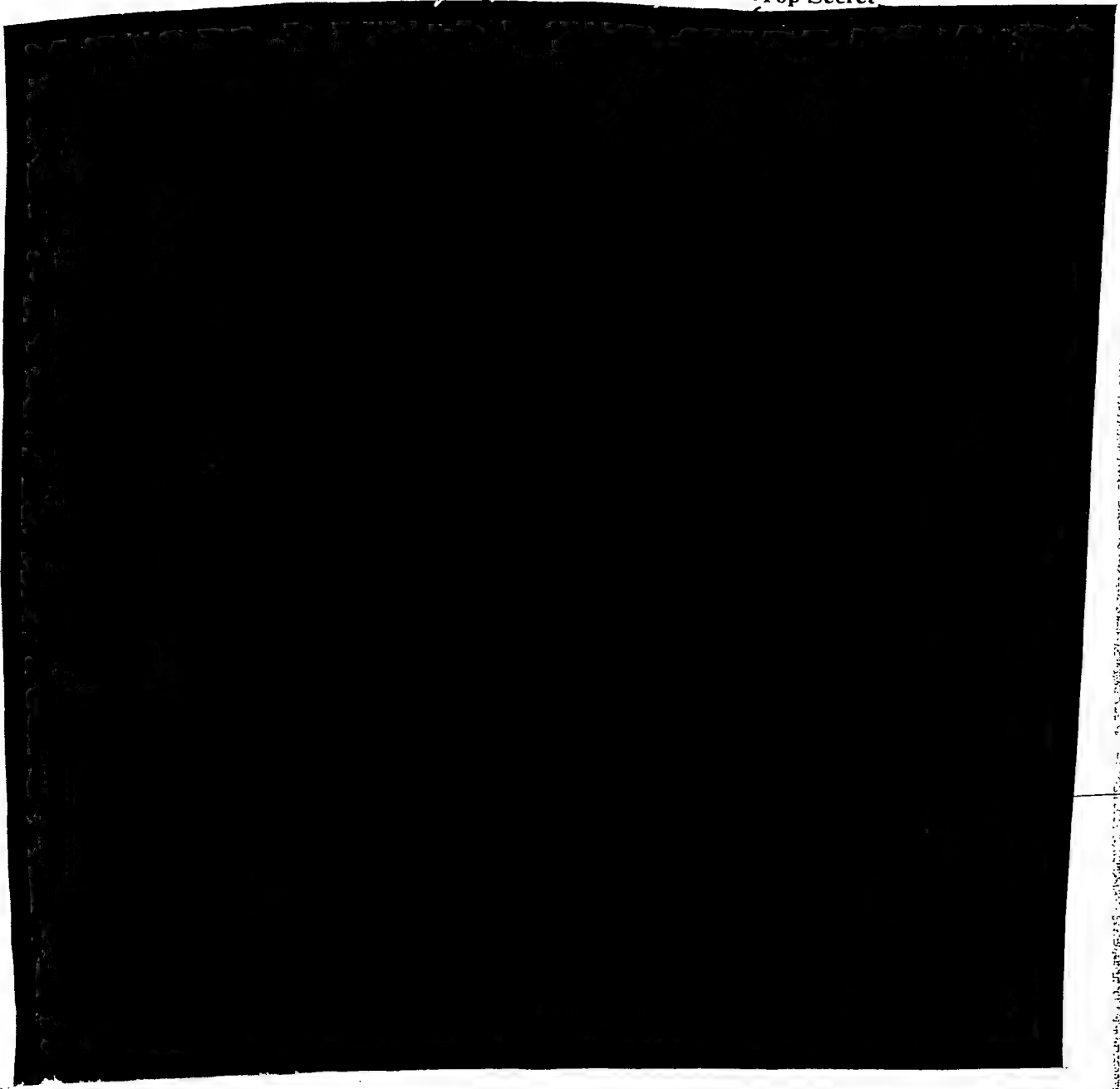
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Arafat is determined to maintain discipline in Palestinian ranks while negotiations with Israel are under consideration. He fears the chaos in Nabulus could spread throughout the West Bank and the Gaza Strip—thus damaging his credibility—if there is no progress on talks with the Israelis. Arafat has made open appeals for restraint in attacks on collaborators in Nabulus.

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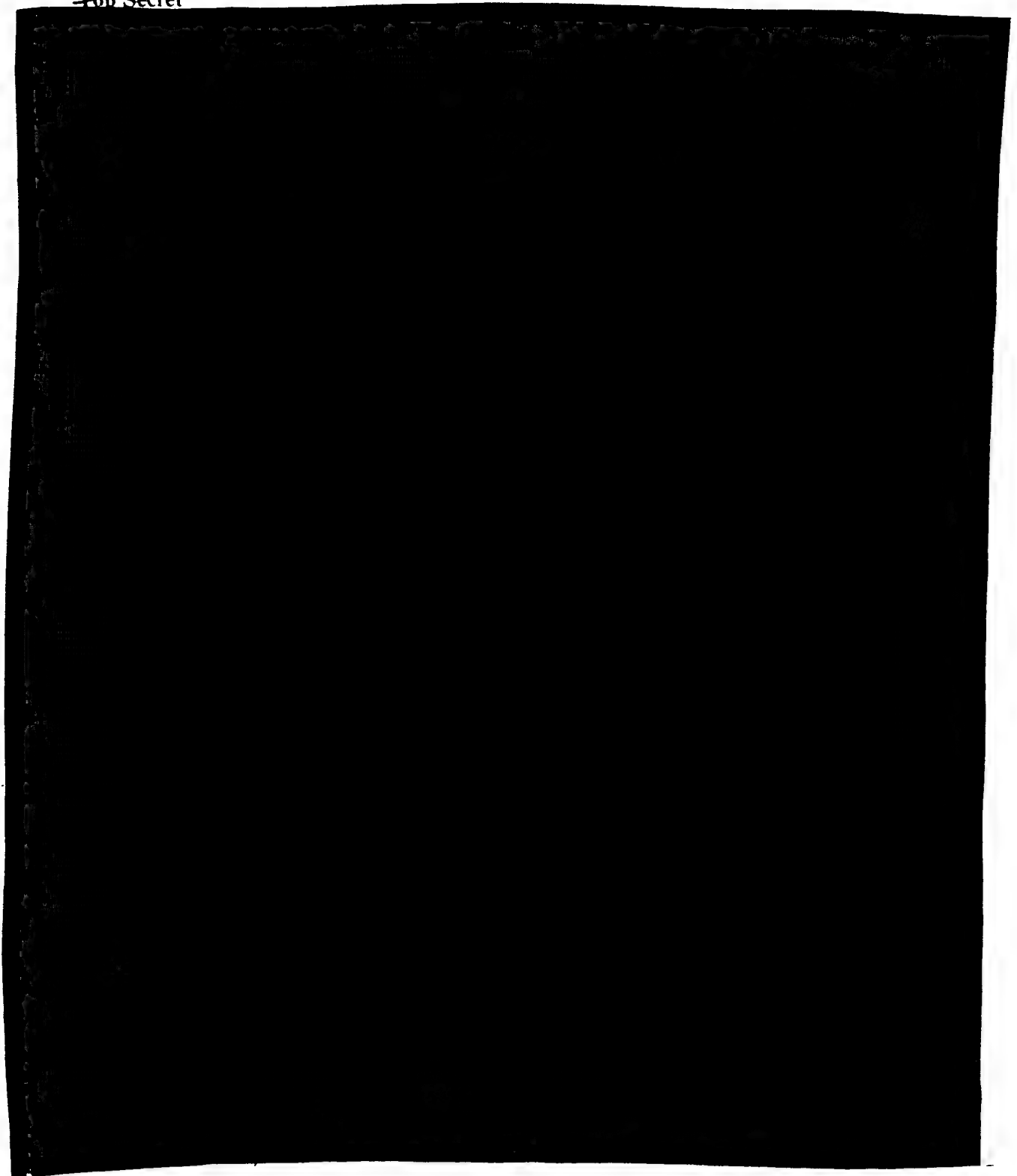
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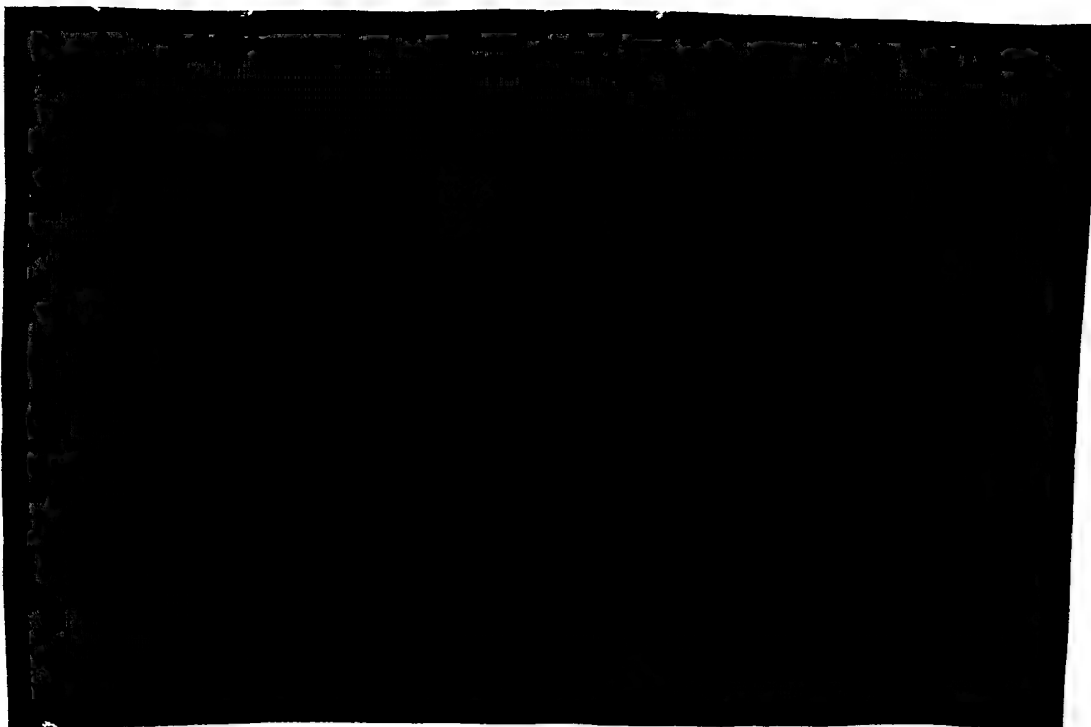
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FRANCE: Proposing EC Talks on Eastern Europe

French President Mitterrand yesterday invited top EC leaders to an unscheduled EC Summit this Saturday in Paris to discuss Eastern Europe, a move almost certainly designed to keep West Germany from pursuing its own agenda for dealing with developments there. He warned publicly over the weekend that accelerated change in Eastern Europe threatens the established order, reiterating his view that the EC should serve as the vehicle for managing the West's response to East Bloc events.

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USSR: Serious Charges To Be Decided by Juries

The Supreme Soviet yesterday mandated that, beginning on 1 December, juries will be used for cases involving offenses punishable by 15 years or more in prison or death.

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To date a judge sitting with two "lay assessors" has decided criminal cases. The new law also lets a defense lawyer participate from the beginning of any criminal investigation, instead of only after the prosecutor has prepared his case, a step meant to reduce the prosecutor's dominant role.

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BULGARIA: Party Reinstates Dissidents

The Politburo yesterday reinstated party members who had been dismissed over the past several years for participating in illegal dissident activities and recommended their former jobs be returned. The Bulgarian Supreme Court also ruled yesterday that a lower court had improperly rejected the application for legal status of the dissident organization *Ecoglusnost* and returned the application for a reconsideration and new ruling within two weeks.

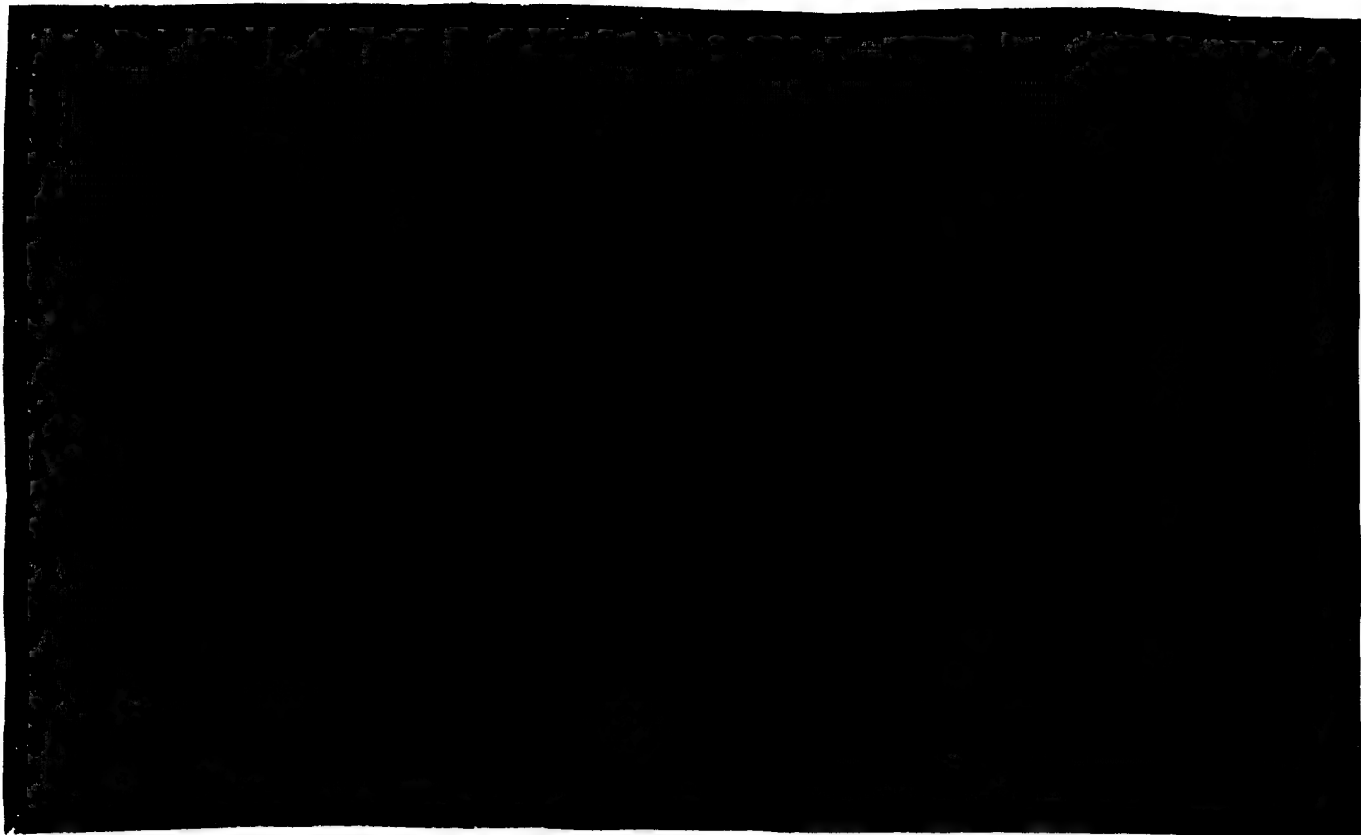
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SRI LANKA: Sinhalese Rebel Leader Killed

Sri Lankan security forces on Sunday captured Rohana Wijeweera, the charismatic figure who has led the Sinhalese nationalist Janatha Vimukthi Peramuna since its formation in the 1960s.

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Security forces arrested Wijeweera in an area of intense counterinsurgency activity. His deputy, Upatissa Gamanayake, remains at large.

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Even though Wijeweera's deputy probably will assume leadership of the JVP, the government's success in capturing and killing rebel leaders is hurting the group. Government counterinsurgency operations continue to result in high numbers of civilian deaths—typically more than 200 a week, including many at the hands of progovernment vigilante groups. In response, the JVP is hitting economic targets such as tea and rubber plantations, with the aim of driving up inflation and unemployment and provoking widespread unrest in the Sinhalese-dominated south.

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PANAMA: People's Assembly Gets Broad Powers

Defense Chief Noriega is taking further steps to consolidate control of the civilian government and may declare himself head of government before year's end. The regime last week granted broad judicial, administrative, and legislative powers to the People's Parliament, a group of 510 handpicked local officials established last month.

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Noriega has been nominated to head the group, and the regime has announced it will revise the constitution. A senior member of the assembly speculated last week that Noriega may be declared head of government before the end of this year, according to press reports.

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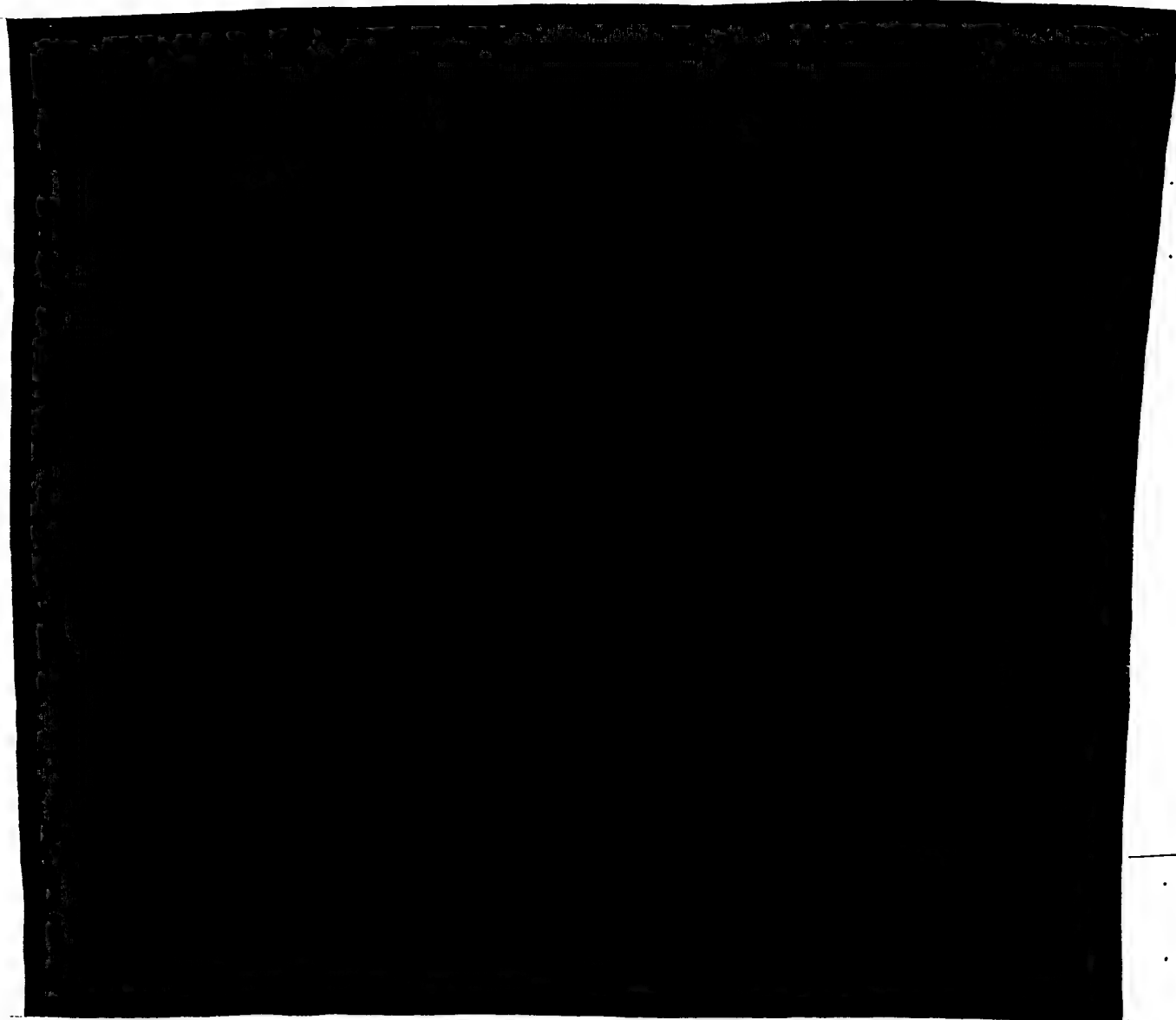
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Noriega probably believes his recent steps will not draw a significantly harsher regional reaction than the establishment of the assembly did last month, but the measures may anger Latin representatives at the OAS General Assembly sessions in Washington this week. Although Noriega probably will continue to rule by decree, like former military strongman Omar Torrijos, he will use the Parliament to change the constitution and give his de facto control of the government some appearance of legitimacy.

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In Brief

Middle East

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— Iraq reopening Al Basrah port tomorrow, first time since 1980, via Shatt al Basrah Canal . . . canal only handles small ships despite Baghdad's claims . . . still increases leverage with Iran. [REDACTED] b3

— Egypt has agreed to major economic reforms after intense talks with World Bank team . . . one step closer to IMF standby agreement, debt rescheduling . . . details of reforms not final. [REDACTED] b3

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Asia

— Chinese Premier Li Peng begins visit to Pakistan today . . . first trip abroad since Tiananmen Square crackdown. [REDACTED] b3

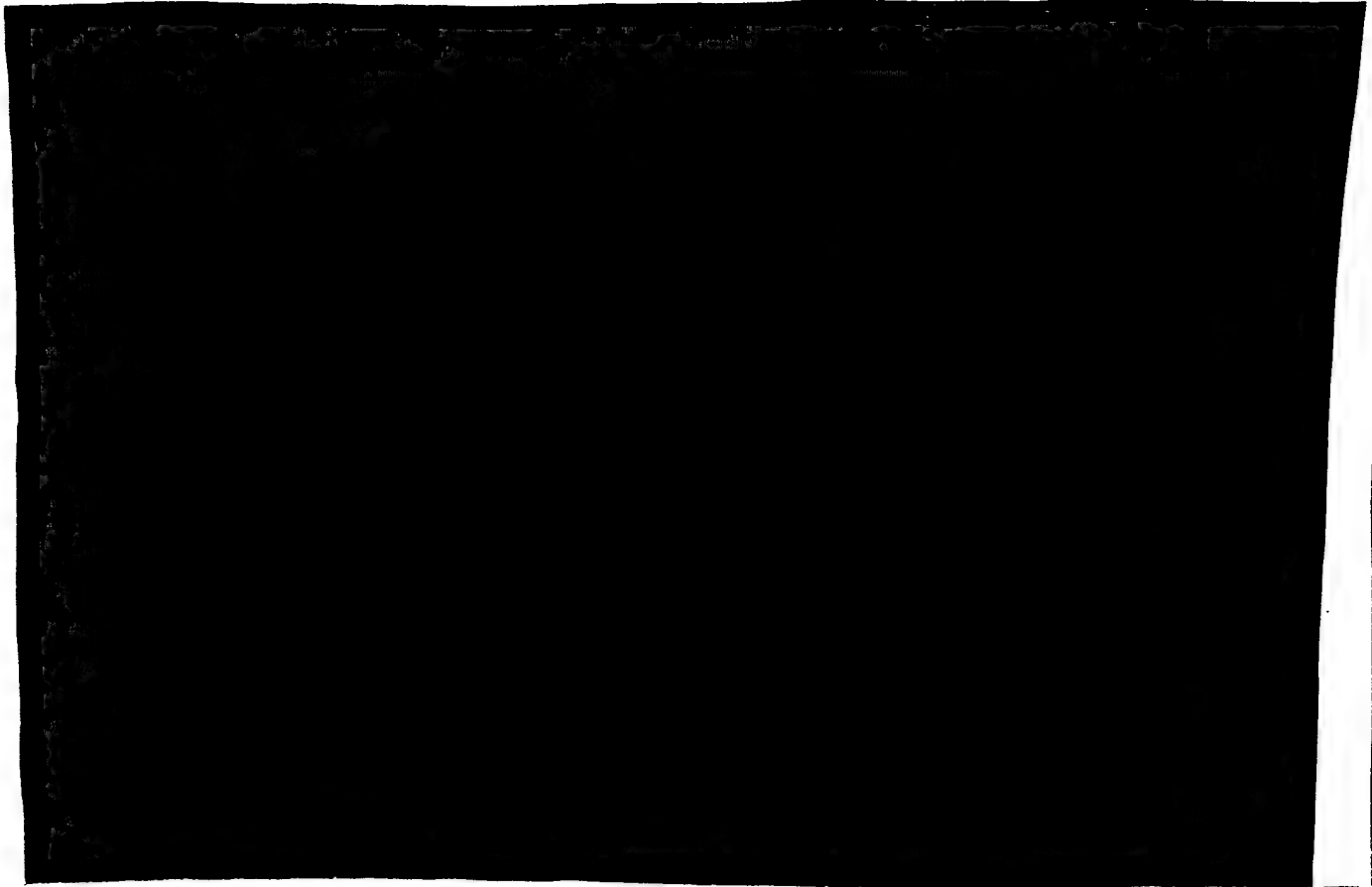
— Pakistani Prime Minister Bhutto's Cabinet resigned yesterday but continues to support her . . . lets her streamline Cabinet, fulfilling promise made after victory in defeating no-confidence vote last month. [REDACTED]

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Africa

— Voting in Namibia ended on schedule Saturday . . . UN reports few incidents, estimates 96- to 98-percent turnout . . . Special Representative Ahtisaari likely to announce results, issue final certification today or tomorrow. [REDACTED] b3

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Special Analysis

BRAZIL:

Electing a New President

Against a backdrop of accelerating inflation and with a largely discredited government, Brazilians go to the polls tomorrow in the first free, direct presidential election since 1960. No clear favorite has emerged; in the likely event no candidate wins a majority, a runoff election between the top two finishers will be held next month.

The campaign has been characterized by an overwhelming rejection of the Sarney government as inept and corrupt, and a bid from each candidate to present himself as a fresh alternative. Voters are concerned about inflation and the declining standard of living, but no candidate has offered a program that has captured the public imagination. Inflation is rising nearly 40 percent a month, fed by huge wage increases and mushrooming payments on the internal debt. Most candidates have stressed, but in vague terms, the need for tough economic reforms and renegotiation of Brazil's \$110 billion foreign debt once domestic economic problems have been addressed.

A Close Race

The large number of candidates—some 20 in all—the volatility of the polls, and an undecided vote that may be as high as half the electorate make the outcome particularly difficult to call. Moreover, polls show that a third or more of the electorate does not fully understand that, if no candidate gains a majority, a runoff between the first two finishers will be held in the middle of next month. The top three contenders—all have less than 30 percent in recent polls—are center-right frontrunner Fernando Collor de Mello, populist firebrand Leonel Brizola, and leftist Luis Inacio Lula da Silva. In recent weeks Collor has slipped markedly, in part because other candidates have attacked his credibility; Lula has picked up some support and may be edging into second place. Some political pundits consider centrist Senator Mario Covas a darkhorse candidate.

The election court's ruling invalidating the candidacy of TV personality Silvio Santos last week will probably boost Collor's chances. Accusations are widespread that the Sarney administration engineered the Santos candidacy to defeat Collor, who has based his campaign on an antiadministration theme, and Collor is likely to benefit from bitter verbal exchanges with Sarney over the past week.

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Brazil: Profile of the Electorate

Brazil's electorate has become much larger, younger, and less educated since the most recent free, direct presidential election almost 30 years ago. Approximately 82 million Brazilians are expected to cast ballots tomorrow; only 15 million did so in 1960. The typical voter today is young, poorly educated, urban, and politically inactive. Some 73 percent of the voters have never voted in a presidential election. Under the new constitution, 16- and 17-year-olds are eligible to vote for the first time, as are illiterates, who constitute some 10 percent of the population. Voting is mandatory for people ages 18 to 70; failure to vote is punishable by a fine of 3 to 10 percent of the monthly minimum wage. About 70 percent of the population have less than a primary school education, and only about 8 percent have any college education.

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Outlook

With no candidate expected to gain a majority, a runoff is almost certain. Unofficial voting returns should come in quickly, but official results may not be available for a week. [REDACTED] b3

The top two finishers probably will be Collor and either Brizola or Lula. Either combination would make the second round a politically more delineated contest, pitting center-right Collor against leftist state-interventionist Lula or social welfare advocate Brizola. The ability of the candidates to build coalitions with other parties and cut deals with the elites will be important factors in whether they succeed. Lula's presence in the runoff would almost certainly have negative implications for the economy, resulting in increased capital flight; it would also cause concern in the military about the prospects for instability and violence. [REDACTED] b3

There is a risk of violence if neither Lula nor Brizola makes the runoff; [REDACTED]

b1, b3 [REDACTED] Brizola's supporters in the south—his stronghold—are also prepared to cry foul if Brizola does not make the runoff and might foster street violence in protest. [REDACTED] b3

Special Analysis

USSR:

Tough Economic Measures Needed

The USSR's economic stabilization effort is likely to prove inadequate, and the regime already may be drafting bolder measures to resolve the enormous and politically dangerous imbalance between consumer demand and supply. Gaining support for such policies from the Supreme Soviet will be difficult, however, and their implementation could increase unrest. Without such measures, workers' incentives will continue to decline, further reducing discipline and productivity.

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The government's current effort to restore equilibrium to the marketplace relies principally on projected record increases in the production of consumer goods and to a lesser extent on budget reductions and the sale of bonds to the public; price increases and other measures requiring sacrifices on the part of the people are notably absent. Even the planned increases in the supply of goods, however, would not satisfy excess demand during the next year, a "crucial time and turning point," according to Premier Ryzhkov. Total retail sales are planned to increase by 40 billion rubles next year, but incomes are planned to increase by about the same amount. In addition, some Soviet economists put the accumulated excess purchasing power at more than 200 billion rubles, including at least 50 billion rubles in cash and a substantial share of personal savings deposits.

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Moreover, Moscow probably will not come close to achieving the planned increases in supply. The production goals are highly unrealistic given the Soviets' production capacity and the long leadtime needed to bring new capacity on line. Planned imports for next year are not sufficient to make an appreciable difference in markets.

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Measures intended to slow the growth of demand and to soak up excess purchasing power are also likely to fall short. The plan to halve the budget deficit to 60 billion rubles by the end of next year, for example, hinges on overly optimistic projections for revenue increases.

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Calls for Bolder Moves

Moscow realizes that the announced program does not go far enough,

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Gorbachev said in a speech in early September that the government is

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drawing up emergency measures to address the consumer disequilibrium and that the package could include "unpopular, harsh, and painful" policies. [REDACTED] b3

The government probably is considering a variety of measures that effectively reduce state subsidies and increase prices. The recent devaluation of the ruble for tourists and Soviet travelers could be the first step. [REDACTED]

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[REDACTED] The impact of higher prices on pensioners and other low-income consumers would be minimized through an expanded rationing program. Moscow probably is also considering a currency conversion that reduces the value of large holdings of cash and savings deposits. [REDACTED] b3

If Moscow continues to delay such policies, consumer market imbalances will increase. Longer queues, reduced availability of goods in state stores, and additional rationing will further undercut wage incentives, contributing to reduced labor discipline and productivity. [REDACTED] b3

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